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C O N F I D E N T I A L SECTION 01 OF 02 LA PAZ 002777

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TAGS: ECON PGOV PREL BL

SUBJECT: GOVERNMENT UPS THE ANTE WITH NEW SOCIAL PROGRAM

Classified By: Pol/Econ Chief Mike Hammer for reasons 1.4 (b) and (d).

Summary

¶1. (U) In the face of considerable regional resistance to diverting over \$100 million in hydrocarbons taxes (IDH) from the prefects, municipalities and universities to a national pension system (Bonosol), President Morales announced over the weekend that he would seek to dissolve Bonosol and replace it with another pension model, Plan Dignity. The new scheme would double the amount diverted from local control, increasing the central government's share of the IDH by 30%. Local reaction was swift. The most important point of resistance is Santa Cruz, where the local civic committee held meetings on Monday at the so-called National Summit in Defense of the Decentralized Assets of the IDH. The Summit brought together seven of the nine prefects, 70% of the mayors, representatives from all of the public universities, and the presidents of nearly 80% of department civic committees. The assembly members declared themselves in a state of "permanent mobilization," promising continual acts of public protest. University groups across the country also announced protests. End Summary.

The Direct Hydrocarbon Tax (IDH)

¶2. (U) The Direct Hydrocarbon Tax (IDH) was created as part of the May 2005 Hydrocarbons Law 3058. It is designed to redistribute tax revenues back to the local level and, in particular, back to the areas where hydrocarbons are produced. About 58% of the IDH is distributed at the local department level and 42% goes to the national treasury. Specifically, the revenues are distributed to the prefects (33%), the municipalities (20%), and the public universities (5%). IDH revenues now fund between 30% to 50% of department budgets and have become a significant portion of university budgets.

Bonosol

¶3. (U) The Bonosol is an annuity which was created as part of the privatization (know as capitalization) of the 1990s. All Bolivian citizens who were 21 years or older as of the end of 1995 were to receive the benefit after the age of ¶65. Currently, Bonosol gives annual payments of about US\$230 to over 450,000 senior citizens. The Bonosol is supposed to be funded though the Capitalization Collective Fund (FCC) which was created using 50% of the value of the companies capitalized in the 1990s. Additionally, the nine capitalized companies contribute directly to the fund based on their annual proceeds. This year the companies contributed about US\$41 million. According to the government, however, these two sources are not enough to cover the US\$110-120 million that the Bonosol will need to match its commitments. On September 25th, the central government resolved to divert over US\$100 million from the IDH to the Bonosol system. (Note: It was unclear why US\$100 million needed to be diverted to cover a US\$70 to US\$80 million deficit, but perhaps Plan Dignity is now providing an answer. End Note.)

Plan Dignity

¶4. (U) After three weeks of marked tension between the central government and the local actors, President Morales announced an increase from US\$100 to US\$200 million (from 15% to 30%) of IDH revenue that would be diverted from the departments to the central treasury. No longer would the cash be used to make Bonosol viable, it would be used to create a new welfare program that would guarantee a monthly or bimonthly payment (to be determined) to all Bolivians over

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the age of 60. In other words, it scraps the eligibility limits of Bonosol, lowers to eligible age from 65 to 60, and raises the yearly payout from US\$230 to US\$307. This translates to an additional 225,000 beneficiaries and elevates the costs from US\$110-US\$120 million a year to approximately US\$190 million a year.

¶5. (U) On October 16, Vice President Linera presented the proposed new law, Plan Dignity, to Congress. The law would scrap Bonosol and allow the IDH and FCC revenue to be channeled into Plan Dignity. In presenting the "revolutionary" new law to Congress, Linera criticized the egotistical members of society who only think of themselves, and called on the grandmas and grandpas of the country to help get the law approved. The Confederated Union of Rural Workers immediately declared its support for the Morales plan and offered their support. For his part, President Morales said that if the law does not pass Congress by January, he will put it into effect through decree.

Reactions

¶6. (U) If the local governments and public universities were up in arms about losing 15% of the IDH, having 30% of the vital revenue diverted to the central government for a larger, ill-defined, welfare program that violates current law will produce visible and vociferous protest. Even before doubling the amount of revenue being centralized, the prefects of Cochabamba, Santa Cruz, Pando, and Tarija signed the "Declaration of Bahia," rejecting the US\$100 million asset grab by the central government. Now they are in a state of "permanent mobilization." Similarly, the confederation of universities has declared itself also fully mobilized and will not accept any cut in its share of IDH revenues. The first student marches are planned in La Paz for October 16th. In Santa Cruz, one major university will begin to strike on October 18th and the Municipal Association of Santa Cruz (Amdecruz) is scheduled to organize a complete city shutdown on the 22nd.

Comment

¶7. (C) This latest government initiative further exacerbates the divide between regional authorities and the Morales administration, inevitably intensifying the opposition's call for greater departmental autonomy. While Morales' Dignity program clearly aims at providing broader social security benefits to the elderly, the manner in which the program was introduced clearly illustrates the administration's lack of respect for established laws and further demonstrates a desire to centralize both resources and government programs.

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